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Research Article

A STUDY OF THE IMPACT OF QUALITY OF INFORMATION DISCLOSURE ON CIRCULATING CAPITAL MANAGEMENT IN THE FIRMS LISTED IN TEHRAN STOCK EXCHAVGE MARKET

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ABSTRACT
High quality accounting information is the main pre-requisite to ensure the healthy functioning of capital market and generally economics and has the great significance for investors, firms and developers of accounting standards. Therefore, the present study investigates the impact of disclosure quality on circulating capital management in firms. For this purpose, the quality of information disclosure on liquidity ratio, activity and debt ratios, in terms of the final scores granted by stock exchange market to member firms, is tested. The study statistical community was composed of all the firms listed in Tehran Exchange Market, except for investment firms, banks and insurance companies, during 2009 to 2013. The study results which were measured using Eview Software indicated a significant relationship between the disclosure quality of data and net circulating capital, net turnover, average receivable debt ratio, debt to equity ratio. In addition, there was a significant relationship between the quality of data disclosure and average inventory circulation period, immediate ratio.

Keywords: *Disclosure Quality; Circulating Capital Management, Circulating Capital, Financial Ratios*

INTRODUCTION
Undoubtedly, the most significant factor in the choices and decision making is the presence of relevant and timely information. In this way, it is possible to make proper decisions on investment in order to select the most appropriate and profitable stock. After the accounting information was issued and presented to different groups, it should be analyzed to enable us to make effective decisions.
Analysis is a major factor which can influence decision making. Regarding performing accounting stages, the last stage following the provision of announcements is the analysis of results. One important method of accounting information analysis is to provide financial announcements on the basis of percentage, or provision of comparative financial announcements or providing financial ratios, which the latter is a well-known and widely used technique in the analysis of financial announcements.

Statement of Problem
The factors determining the quality of accounting information disclosure are varied. The disclosure is a function of different factors such as capital structure, the type of ownership, sale growth, firm size and also situation of form share in capital market (Pananen and Lin, 2009). In its most ordinary form, the term “disclosure” means preparing information. The terms “quality” of accounting information disclosure and “transparency” of a disclosure system are interchangeably applied, and in this regard usually several terms are used including suitability, comprehensiveness, informing and timeliness. Also, states control stock exchange market due to several reasons. Information current which is accurate, effective and objective contribute to the high performance of capital market, realizes the needs of all consumers and results in economic growth and stability of community (Baily *et al.*, 2003). From an accounting perspective, economic affairs of an entity include entity’s resources (asset), claims to those resources (shareholders' rights and liabilities, changes in resources, cash claims and flows) which will be reflected in financial announcements in the form of loss and benefit and cash flow, firm risks and how to manage them. Efficient circulating capital management include planning and control of current debts and assets, in a way that it absolves another party of risk of inability to fulfill short term obligations from one hand and excessive investment in such assets on the other hand (Rahman and Nasr).

Decision making could be observed at all aspects of financial affairs, and capital management decision making is not an exception to this rule. This type of decision making could be defined as Determining the size and composition of the sources and uses of working capital in such a way that results in an increase in the wealth of the stockholders (Huynh and Phuong, 2010). The above discussion on the significance of information disclosure in financial announcements and reports, its impact on circulating capital management and its different components including payable accounts, cash conversion cycle, receipt of goods sold are analyzed at the following sections.

Theoretical Basics

Disclosure

At the Semantic Level, the Word Means to Disseminate Information to Disclose Financial Purely Commercial Units

At the semantic level, the word "disclosure" means dissemination of purely financial information of an entity in an annual report. Disclosure is regarded as one of the accounting principles, and all information relevant to firm activities should be presented to different user groups in a right time and as best as possible.

In fact, the main objective of any disclosure is assist users in decision making on investment, interpretation of firms' financial state, evaluation of management performance, and prediction of future cash flows. Therefore, the better transparency and disclosure make stockholders more informed.

In this regard, all important facts regarding economic unit should be disclosed in a proper and complete way to make right decisions and prevent any confusion. Disclosure should be made through legal reports including basic financial statements which include all relevant and timely facts. Also, such information should be presented in an understandable and as much as possible complete to assist users in making conscious and right decisions (Malekian, 1996).

Quality of Disclosure

The factors determining the quality of accounting information disclosure are varied. Pananen and Lin (2009) define accounting information quality as a function of different factors such as capital structure, type of ownership, sale growth, firm size and also the state of firm stock in capital market (Pananen and Lin, 2009). Information disclosed by firm should be reliable and relevant in a way that helps users in making right decisions.

Timeliness

It is one of the most significant qualitative features of financial information. It means that information should be presented to users at the shortest time and as soon as possible. Shorter the distance between the end of financial year and issuance date of financial statements of an entity, further profitability of annual audited financial statements of that unit will be achieved (Chang *et al.*, 2008). Timeliness is an integral part of relevancy. Information is timely if its users can utilize it constructively in decision making process (Hill, 2007).

Reliability

Information and data are reliable when they are free of intentional and unintentional error and bias, and clearly define the actual facts.

Reliability could be defined in the following terms as well.

A) The honest expression of information: information should sincerely express the effect of transactions and other events that may claim and indicate, or it is reasonably expected to disclose.

B) Impartiality: The information contained in financial statements must be neutral, i.e. free from partisan interests.

C) Caution: the use of the degree of care in the exercise of judgment to perform the estimation at the time of uncertainty, so that income or assets are not presented more than what is actual, and liabilities or costs are not disclosed less than what actually are.

d) Completeness: information contained in financial statements should be presented and reported with respect to the quality and importance of increasing interest, as well as considerations of cost and other factors (Riahi, 2012).

Management of Circulating Capital

Analysis plays significant role in decision making. In accounting, the last activity following completing statements is result analysis.

Two examples of accounting information analysis are financial statements in terms of percentage and comparative financial statements or financial ratios.

Preparation of financial ratios is one well known and widely applicable technique for analyzing financial statements. To analyze financial state of a profit making entity, four financial ratios could be utilized:

1- Cash Ratios
2- Activity Ratios
3- Financial leverage ratios or debt ratios (investment)
4- Profitability ratios

Each of the above ratios is separately described in the part of the variables. In the present study, profit making ratios are not the components of the studied variables and only three above ratios are analyzed and measured.

The Study Hypotheses

The first primary hypothesis: there is a significant relationship between information disclosure and liquidity ratios

The secondary hypothesis 1-A: there is a positive significant relationship between the quality of information disclosure and net circulating capital

The secondary hypothesis 1-B: there is a significant relationship between the quality of information disclosure and current ratio

The second primary hypothesis: there is a significant relationship between the quality of information disclosure and activity ratios

The secondary hypothesis 2-A: there is a significant relationship between the quality of information disclosure and average receivable collection period

The secondary hypothesis 2-B: there is a significant relationship between the quality of information disclosure and average inventory turnover duration

The third secondary hypothesis 3-A: there is a significant relationship between the quality of information disclosure and debt ratio

The third secondary hypothesis 3-B: there is a significant relationship between the quality of information disclosure and debt-to-equity ratio

Operational Definition of the Variables

1- The Dependent Variables

First: Liquidity Ratio

1- Net circulating capital: subtracting current liabilities from current assets

2- Current ratios: Current assets divided by current liabilities

3- Immediate ratios: subtracting the sum of inventory and prepayments of current assets divided by current liabilities

Second: Activity Ratio

1- The average receivables collection period: accounts receivable divided by sales, multiplied by the number of years (365).

2- The average period inventory turnover: inventory divided by cost of goods sold, multiplied by the number of years (365).

3- Operation period: the sum of the average receivable collection period over the average inventory turnover period.

Third: Leverage Ratio

1- Debt ratio: total liabilities divided by total assets.

2- Debt-to-equity ratio: total liabilities divided by total equity.

3- The coverage ratio of interest expenses: earnings divided by interest costs, prior to interest and tax deduction

2- Independent Variable

In the present study, the independent variable is "the quality of information disclosure". In the present study, to quantify the variable "disclosure", firm disclosure ranking list was used. The ranks given to firms by Stock Exchange Market benefited from timeliness and reliability, so that if financial information of a firm achieved 100 in terms of reliability and timeliness, it has final rank of 100, which is formulated as the following:

Index=$\frac{X+Y}{2}$

Here, X is reliability, and Y is timeliness.

Scope of Study

Time duration of the study ranges from 2009 to 2013, which legal obligations of the firms listed in Stock Exchange Market resulted in the public announcement of accounting information by an acceptable quality. The expiration of their financial year is the end of March and their data is accessible during the study duration. So the selected firms as the statistical sample should present financial statements in a five year period to Tehran Stock Exchange Market and also they should be approved by Auditing Organization. Also, they should not have investment firms and financial intermediation, insurances and banks.

Data Collection Methods

In the present study, to collect data, specialized journals and webs sites on stock exchange and firms' financial information software were sued.

To prepare data, Excel Software was used. Following the preparation of the variables using Excel software and necessary calculations to access to the desired variables, Eviews software was utilized to estimate the econometric models using collected data.

Descriptive Statistics of the Study Variables

The descriptive statistics of the study which include mean, median, maximum, minimum, and the deviation criteria of the study data are calculated and shown in Table (1-4).

Table 1: The Variables Descriptive Statistics

	Mean	Median	Maximum	Minimum	Standard Deviation
Activity	9.574	9.738	18.791	2.172	1.606
Capital	0.154	0.080	4.635	0.001	0.277
Collection	4.632	4.789	10.061	-0.168	1.239
Current	1.376	1.206	10.850	0.223	0.842
Interset	5.880	3.638	49.421	0.000	7.033
Inventory	4.942	4.972	8.730	1.589	0.756
Lev	0.634	0.642	2.078	0.080	0.222
Quality	4.114	4.220	4.610	1.610	0.457
Quick	0.876	0.771	8.358	0.084	0.683
Roe	3.501	3.601	4.522	-1.113	0.644

The mean is higher than the median and this indicates the presence of large areas in the data. This is because the mean is influenced by these magnitudes. Considering the proximity of the median and mean at the most of the variables and also other statistics obtained from different variables, it could be concluded that all the variables have a proper distribution and approximately all have a relative symmetry.

The Hypothesis Test and Resut

Test of the First Secondary Hypothesis of the Study

Table 2: The results of F-Limer Diagnostic Test

Accepted Method	Level of Error	Statistics
Combined Data Method	0.441	0.938

Now, considering the results obtained from F-Limer Test, to estimate of the model, ordinary combined data method is used. Also, the results indicate that about 48% of changes in the disclosure quality are described by the study independent variables.

Test of the Second Secondary Hypothesis of the Study

Table 3: The results of F-Limer Diagnostic Test

Accepted Methods	Level of Error	Statistics
Combined Data Method	0.271	1.294

Now, considering the results obtained from F-Limer Diagnostic Test, to estimate of the model, ordinary combined data method is used. Also, the results indicate that about 45% of changes in the disclosure quality are described by the study independent variables.

Table 5: The Results of the Hypotheses Test and their Variation Coefficient

Row	Relationship between the Variables	Variation Coefficient	P-Value	The Test Result
1st Hypotheses	The Disclosure quality of information and net circulating capital	-0/132	0/000	Confirmed
2nd Hypothesis	Quality of information disclosure and the average receivables collection period	-0/024	0/006	Confirmed
3rd	The Disclosure quality of information and debt ratio	-0/292	0/000	Confirmed
4th	The Disclosure quality of information and current ratio	-0/073	0/241	Not confirmed
5th	The quality of information disclosure and average inventory turnover	0/001	0/971	Not Confirmed
6th	Quality of information disclosure and debt-to-equity ratio	0/110	0/000	Confirmed

Using Table 2, the value relationship of the quality of information disclosure and financial ratio is investigated. As it could be seen, given the statistics F (p value less than 0.05), it could be claimed that there is a significant relationship between the hypothesis variables. In addition, the adjusted coefficient of determination indicates that to what extent the dependent variables are determined by the independent variable. The results of each hypothesis are shown in Table 2. Also, it should be noted that in the test of hypotheses, the secondary hypotheses of the first to third of each group of the hypotheses are measured.

Conclusion

One objective of financial reporting is to prepare and present information to establish a basis for rational decision making of investors and creditors. In this regard, information should be helpful and relevant, and be able to influence economic decisions, and lead to the best decision. On the other hand, to achieve the above mentioned goal, the relevant information obtained from accounting and financial reporting should be disclosed in a widely accessible and proper way. Therefore, the present study, the relationship between the disclosure qualities of information related to the firms listed in Tehran Stock Exchange is investigated in terms of their final ranking which is a combination of reliability and timeliness coefficients and also cash, activity and financial leverage ratios.

The results indicate that among liquidity ratios, the disclosure quality of information only has a significant relationship with capital ratio in net turnover; and among activity ratios, it has a significant relationship with average receivable collection period and operation period, and finally among financial leverage ratios, it has a significant relationship with debt ratio, and debt to equity ratio. However, the above relations are generated if there would not be a significant relationship between immediate ratio, current ratio, average inventory circulation period and average expense insurance. It appears that higher score for better quality influences relationship between existing items, and also investors while responding to financial statements in their decisions, pay special attention to the ranking of the quality of reported disclosure statement presented by Tehran Stock Exchange Organization

Based on the above, it is suggested that Iran Stock Exchange Organization take some actions to revise the procedure to calculate disclosure quality ranking and firms' information disclosure strategies. So, reliability and timeliness along with the quality of financial statements items should be taken into account. In addition, it is suggested to do this study considering profitability ratios.

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